

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD		County IOSCO
Audit Date 09/30/2005	Opinion Date 01/25/2006	Date Accountant Report Submitted to State: 03/28/2006		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

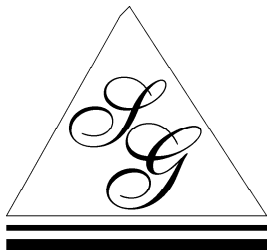
You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature <i>Donald D. Gracik Jr., CPA</i>			



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
TAWAS CITY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2005

AUDITORS' REPORT

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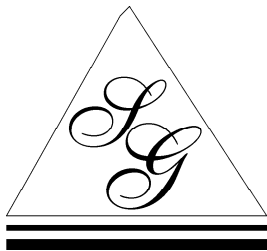
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Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

January 25, 2006

Independent Auditors' Report

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements, as listed in the index. These financial statements are the responsibility of the Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of September 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2006, on our consideration of AuSable Valley Community Mental Health Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements. The individual fund schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stephenson, Gracik & Co., P.C.



AuSable Valley Community Mental Health Services

1199 W. Harris Avenue
P.O. Box 310
TAWAS CITY, MICHIGAN 48764
(989) 362-8636
FAX (989) 362-7800

William Williams, D.O., Chairperson
Floyd R. Smith, Ph.D., Director

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

As management of the AuSable Valley Community Mental Health Services Board, (the Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended September 30, 2005.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of the Board's financial condition. This summary should not be taken as a replacement for the audit which consists of the financial statements and other supplemental information that presents all the Board's revenues and expenditures by program for the General Fund and Internal Service Fund.

FINANCIAL HIGHLIGHTS

The Board made several important choices during the year, which have guided our application of the Board's resources. These are as follows:

1. To continue our efforts at maximizing the quality and extent of our programs, and to taking the steps which are necessary to maintain the resources in order to do that. The result of that choice has been the ability to renew our Developmental Disabilities Program; and to make planning decisions which will result in major improvements in our children's services. We have identified the additional funds necessary to accomplish these goals.
2. To take the necessary steps to create and provide the data which are necessary in order to receive and retain the resources which make those program improvements possible. Specifically, because of our demonstration through those data of the high levels of quantity and quality of services which we are providing, we were able to see an increase of almost 10% in our Medicaid budget this year. These dollars have all been committed to the improvement and maintenance of services.
3. To continue our vigorous defense against any attempt by the State to take back funds by changing rules after the fact. We reached a conclusion this year of one of those issues, in the settlement in our favor of the Children's Waiver issue; a settlement whose value to us was approximately \$170,000. We have also continued our defense of the issues relating to the Department's fiscal audit; and of an issue relative to Adoption Subsidy which could have cost us \$500,000 or more if we had lost it. As of the date of this audit, that last issue is reaching apparent conclusion.
4. To provide a continued, careful review of the Board's finances, in order to assure long-term stability of the Board. This is a renewed commitment which must be made every year, but one in which we were successful again in 2005.

Our financial statements provide these insights into the results of this year's operations.

The assets of the Board exceeded its liabilities at the close of the most recent fiscal year by \$2,326,279 (net assets). Of this amount, \$689,167 (unrestricted net assets) may be used to meet the Board's ongoing obligations to clients and creditors.



**Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2005**

The Board's total net assets increased by \$304,219. This 15% increase was primarily due to State General Fund carryforward of \$107,854, unspent Adult Benefit Waiver of \$120,791 and fiscal year 2004 Medicaid funds of \$109,795 received from the Affiliation in fiscal year 2005. The Medicaid funds were reimbursement for Medicaid services provided in 2004 which had been paid for with local funds, reducing total net assets as of September 30, 2004.

As of the close of the current fiscal year, the Board's governmental fund reported an ending fund balance of \$999,650, an increase of \$100,934 in comparison with the prior year. The fund balance represents \$120,791 of Adult Benefit Waiver and \$6,357 of MI Child carryover which will become local funds in the next fiscal year, as well as \$107,854 of State general fund carryover and \$764,648 of unreserved local dollars. The total fund balance was 7.9% of the total expenditures of the general fund.

USING THIS ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the AuSable Valley Community Mental Health Services Board basic financial statements. The Board's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's finances in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Board's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected client fees and earned but unused sick and vacation leave).

Both the government-wide financial statements distinguish functions of the Board that are principally supported by intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Board include program activities. The Board does not currently have any business-type activities.

The government-wide financial statements are presented in Exhibits A and B of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of these funds of the Board can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of *spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating an entity's near-term financing requirements.

**Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2005**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Board's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate this comparison between the *governmental fund* and *governmental activities*.

The Board maintains one individual governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balance for the general fund which is considered to be a major fund.

The Board adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements are presented in Exhibits C and E of this report.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk financing requirements. The internal service fund is reported with governmental activities in the government-wide financial statements. The basic proprietary fund financial statements are presented in Exhibits G, H and I of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, are presented in Exhibit J of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary information for the Board's governmental fund. Required supplementary information is presented in Exhibit K of this report.

Our auditors have provided assurance in their independent auditors' report, located immediately preceding this Management's Discussion and Analysis, that the Basic Financial Statements are fairly stated. Varying degrees of assurance are being provided by the auditor regarding the Required Supplementary Information and the Supplemental Information identified above. A user of this report should read the independent auditors' report carefully to ascertain the level of assurance being provided for each of the parts in the Financial Section.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Board's net assets were \$2,326,279 at September 30, 2005. Of this amount, \$689,167 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and the change in net assets (Table 2) of the Board's governmental activities.

TABLE 1
NET ASSETS

	<u>Governmental Activities</u>	
	<u>September 30, 2005</u>	<u>September 30, 2004</u>
Current Assets	\$ 1,979,671	\$ 1,793,250
Noncurrent Assets	<u>2,029,033</u>	<u>1,887,787</u>
Total Assets	<u>4,008,704</u>	<u>3,681,037</u>
Current Liabilities	1,208,105	1,189,176
Noncurrent Liabilities	<u>474,320</u>	<u>469,801</u>
Total Liabilities	<u>1,682,425</u>	<u>1,658,977</u>
<u>Net Assets</u>		
Invested in Capital Assets	1,637,112	1,455,661
Unrestricted	<u>689,167</u>	<u>566,399</u>
Total Net Assets	<u>\$ 2,326,279</u>	<u>\$ 2,022,060</u>

The \$689,167 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. It means that if we had to pay off all of our bills *today*, including all of our noncurrent liabilities (compensated absences for example); we would have \$689,167 left.

TABLE 2
CHANGES IN NET ASSETS

	<u>Governmental Activities</u>	
	<u>Year Ended September 30, 2005</u>	<u>Year Ended September 30, 2004</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,103,546	\$ 1,056,577
Operating Grants and Contributions	1,200,295	1,259,037
General Revenues:		
DCH Formula Funding	2,151,084	2,126,884
Managed Care Medicaid	7,766,347	7,951,249
Adult Benefit Waiver	323,050	377,412
MI Child	10,302	11,034
Foundation Contributions	0	1,754,677
County Appropriations	147,553	147,553
Title XX Replacement	8,200	8,200
Interest Earnings	39,124	35,230
Miscellaneous	<u>220</u>	<u>0</u>
Total Revenues	<u>12,749,721</u>	<u>14,727,853</u>

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

TABLE 2
CHANGES IN NET ASSETS (CONTINUED)

	<u>Governmental Activities</u>	
	<u>Year Ended September 30, 2005</u>	<u>Year Ended September 30, 2004</u>
Expenses:		
MI – Child Habilitation Services	\$ 76,917	\$ 206,037
MI – Child Outpatient	215,791	238,065
MI – Child State Inpatient	89,184	9,724
MI – Child Case Management	580,736	668,776
MI – Adult State Inpatient	34,692	11,583
MI – Adult Community Inpatient	79,127	72,546
MI – Adult Habilitation Services	693,644	828,056
MI – Adult Outpatient	700,545	753,274
MI – Adult Case Management	977,546	830,176
DD – State Inpatient	114,382	78,421
DD – Children's Waiver	51,491	145,600
DD – Habilitation Services	3,819,282	3,900,801
DD – Community Living	888,973	858,765
DD – Outpatient	285,217	321,670
DD – Case Management	622,774	878,588
DD – Respite Care	14,641	25,744
Other Outpatient Services	280,554	264,228
Emergency Services	129,454	96,525
Supported Employment	708,426	617,246
Prevention	1,264,886	1,434,631
Substance Abuse Program	817,240	805,132
Total Expenses	<u>12,445,502</u>	<u>13,045,588</u>
Increase in Net Assets	<u>\$ 304,219</u>	<u>\$ 1,682,265</u>

Governmental activities increased the Board's net assets by \$304,219.

As reported in our Statement of Activities in Exhibit B, the cost of all of our governmental activities this year was \$12,445,502. However, the amount that our counties ultimately financed for these activities through the Board was only \$147,553 because most of the cost was paid by those who benefited from the programs \$1,103,546, by other governments and organizations who subsidized certain programs with grants and contributions \$1,200,295, by DCH Formula Funding \$2,151,084, Managed Care Medicaid \$7,766,347, Adult Benefit Waiver \$323,050, MI Child \$10,302, and by miscellaneous sources \$47,544.

MAJOR GOVERNMENTAL FUND BUDGETING AND OPERATING HIGHLIGHTS

The Board's budget is prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the year ended September 30, 2005, the Board amended the budget of this major governmental fund one time with no significant changes.

AUSABLE VALLEY COMMUNITY MENTAL HEALTH SERVICES BOARD

Management's Discussion and Analysis For Fiscal Year Ended September 30, 2005

General Fund

The general fund actual revenue was \$12,746,375. The amount is more than the original budget estimates of \$12,650,855. The variance between the actual revenue and the original budget was the result of increased revenue from various sources.

The actual expenditures of the general fund were \$12,645,441, which is less than the original budget estimates of \$12,650,855. The variance between the actual expenditures and the original budget was nominal.

The General Fund had total revenues of \$12,746,375 and total expenditures of \$12,645,441 with an ending fund balance of \$999,650.

TOTAL REVENUES

The total revenues of the Board were \$12,749,721. Of the total revenues, 100% were generated by governmental activities.

Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,303,841 or 18.1% of total revenues of \$12,749,721.

GOVERNMENTAL FUND EXPENDITURES

Total governmental fund expenditures amounted to \$12,645,441. The governmental fund had a net increase in fund balance of \$100,934. The ending fund balance for the governmental fund was \$999,650 which represents 7.9% of current year expenditures. The ending fund balance percentage for the prior year represented 6.4% of last year's expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the Board had \$3,101,598 invested in land, buildings and improvements, furniture, fixtures and equipment and vehicles. Of this amount, \$1,464,486 in depreciation has been taken over the years. We currently have net book value of \$1,637,112. Total additions for the year were \$322,089. An expanded and detailed presentation may be seen in Note 7 of the audit, notes to financial statements.

Long-Term Debt

At September 30, 2005, the Board had \$474,320 of accrued compensated absences. Additional information on this balance can be found in Note 8 of the audit, notes to financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

With the State of Michigan faced with a significant deficit, the funding available for Community Mental Health programs is uncertain. We continue to budget and plan at levels consistent with ongoing programs while continually monitoring for any developments at the State and Federal levels. Management will continue to work close with the Board and its Finance Committee to continue to achieve these goals. The level of volatility is less than it has been in previous years, however, and it appears at this time that next year's funding levels will be stable.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in government finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Floyd R. Smith, Ph.D.
Executive Director
AuSable Valley Community Mental Health Services Board
1199 W. Harris Avenue
Tawas City, MI 48763
Office Telephone (989) 362-8636

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF NET ASSETS
September 30, 2005

	<u>Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 1,255,558
Accounts receivable - CMH Services	250,976
Accounts receivable - SSI	16,147
Accounts receivable - Substance Abuse	41,388
Accounts receivable - Miscellaneous	59,498
Due from federal	41,189
Due from state	34,446
Escrows and deposits	41,279
Prepaid expenses	239,190
Total current assets	<u>1,979,671</u>
Noncurrent assets:	
Land contracts receivable	391,921
Capital assets - net	<u>1,637,112</u>
Total noncurrent assets	<u>2,029,033</u>
 Total Assets	 <u>4,008,704</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable	168,168
Due to affiliation	402,770
Due to state	44,382
Accrued wages	176,219
Accrued pension	376,431
Due to employees - flex plan	7,120
Escrow payable	33,015
Total current liabilities	<u>1,208,105</u>
Noncurrent liabilities:	
Compensated absences payable	<u>474,320</u>
 Total Liabilities	 <u>1,682,425</u>
<u>Net Assets</u>	
Invested in capital assets	1,637,112
Unrestricted	<u>689,167</u>
 Total Net Assets	 <u>\$ 2,326,279</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

	Program Revenues			Net (Expenses) Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
	Expenses			
<u>Governmental Activities:</u>				
MI - Child Habilitation Services	\$ 76,917	\$ 0	\$ 0	\$ (76,917)
MI - Child Outpatient	215,791	47,961	0	(167,830)
MI - Child State Inpatient	89,184	0	0	(89,184)
MI - Child Case Management	580,736	32	108,371	(472,333)
MI - Adult State Inpatient	34,692	0	0	(34,692)
MI - Adult Community Inpatient	79,127	0	0	(79,127)
MI - Adult Habilitation Services	693,644	33,255	0	(660,389)
MI - Adult Outpatient	700,545	60,149	13,130	(627,266)
MI - Adult Case Management	977,546	23,643	268	(953,635)
DD - State Inpatient	114,382	0	0	(114,382)
DD - Children's Waiver	51,491	62,115	0	10,624
DD - Habilitation Services	3,819,282	373,217	26,890	(3,419,175)
DD - Community Living	888,973	79,940	10,801	(798,232)
DD - Outpatient	285,217	6	1,186	(284,025)
DD - Case Management	622,774	1,471	50	(621,253)
DD - Respite Care	14,641	0	0	(14,641)
Other Outpatient Services	280,554	30,625	0	(249,929)
Emergency Services	129,454	170	0	(129,284)
Supported Employment	708,426	104,589	700	(603,137)
Prevention	1,264,886	3,930	512,661	(748,295)
Substance Abuse Program	817,240	282,443	526,238	(8,559)
Total governmental activities	<u>\$ 12,445,502</u>	<u>\$ 1,103,546</u>	<u>\$ 1,200,295</u>	<u>(10,141,661)</u>
General Revenue:				
DCH Formula Funding				2,151,084
Managed Care Medicaid				7,766,347
Adult Benefit Waiver				323,050
MI Child				10,302
County Appropriations				147,553
Title XX Replacement				8,200
Interest Earnings				39,124
Miscellaneous				220
Total general revenue				<u>10,445,880</u>
Change in net assets				304,219
Net assets - beginning of year				<u>2,022,060</u>
Net assets - end of year				<u>\$ 2,326,279</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

BALANCE SHEET
GOVERNMENTAL FUND
September 30, 2005

General Fund

ASSETS

Cash and cash equivalents	\$ 1,091,721
Accounts receivable - CMH Services	250,976
Accounts receivable - SSI	16,147
Accounts receivable - Substance Abuse	41,388
Accounts receivable - Miscellaneous	59,498
Due from federal	41,189
Due from state	34,446
Escrows and deposits	41,279
Prepaid expenses	239,190
Land contracts receivable	<u>391,921</u>
Total Assets	<u>\$ 2,207,755</u>

LIABILITIES AND FUND EQUITY

Liabilities

Accounts payable	\$ 168,168
Due to affiliation	402,770
Due to state	44,382
Accrued wages	176,219
Accrued pension	376,431
Due to employees - flex plan	7,120
Escrow payable	<u>33,015</u>
Total Liabilities	<u>1,208,105</u>

Fund Equity

Fund Balances:	
Reserved:	
State General Fund	107,854
Adult Benefit Waiver	120,791
MI Child	6,357
Unreserved-undesignated	<u>764,648</u>
Total Fund Equity	<u>999,650</u>

Total Liabilities and Fund Equity	<u>\$ 2,207,755</u>
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The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
September 30, 2005

Total governmental fund balance	\$	999,650
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds. Capital
assets at year end consist of:

Capital asset cost	\$	3,101,598	
Capital asset accumulated depreciation		<u>(1,464,486)</u>	
			1,637,112

An internal service fund is used to secure funds to meet expected future risk
financing requirements. The assets and liabilities of the internal
service fund are included with governmental activities.

163,837

Long-term liabilities are not due and payable in the current period and, therefore,
are not reported as liabilities in the governmental funds. Long-term liabilities at
year end consist of:

Compensated absences payable		<u>(474,320)</u>	
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Total net assets - governmental activities	\$	<u>2,326,279</u>
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The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended September 30, 2005

	<u>General Fund</u>
Revenue	\$ 12,746,375
Expenditures	<u>12,645,441</u>
Excess of revenue over expenditures	100,934
Fund balance - beginning of year	<u>898,716</u>
Fund balance - end of year	<u>\$ 999,650</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

Total net change in fund balance - governmental fund	\$	100,934
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Current year depreciation expense	\$	(140,004)	
Capital outlays reported in the governmental funds		322,089	
Loss on sale or exchange of assets		<u>(634)</u>	
Net difference			181,451

Net change in accrued compensated absences:

Accrued compensated absences September 30, 2004		492,808	
Accrued compensated absences September 30, 2005		<u>(474,320)</u>	
			18,488

The change in net assets of the internal service fund (a proprietary fund) is reported with governmental activities.

		<u>3,346</u>
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Change in net assets of governmental activities	\$	<u>304,219</u>
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The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUND
September 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ <u>163,837</u>
Total Assets	<u>163,837</u>
<u>LIABILITIES</u>	
Current liabilities	<u>0</u>
Total Liabilities	<u>0</u>
<u>NET ASSETS</u>	
Unrestricted	<u>163,837</u>
Total Net Assets	\$ <u>163,837</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
 MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
For the Year Ended September 30, 2005

	Governmental Activities - Internal <u>Service Fund</u>
Operating revenue	\$ 0
Operating expenses	<u>0</u>
Operating income	0
Non-operating revenue:	
Interest on investments	<u>3,346</u>
Change in net assets	3,346
Total net assets - beginning of year	<u>160,491</u>
Total net assets - end of year	<u>\$ 163,837</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended September 30, 2005

	Governmental Activities - Internal <u>Service Fund</u>
Cash Flows From Operating Activities	\$ 0
Cash Flows From Noncapital Financing Activities	0
<u>Cash Flows From Investing Activities</u>	
Interest earned on investments	<u>3,346</u>
Net increase in cash and cash equivalents	3,346
Cash and cash equivalents at beginning of year	<u>160,491</u>
Cash and cash equivalents at end of year	<u>\$ 163,837</u>

The accompanying notes to financial statements are an integral part of this statement.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the AuSable Valley Mental Health Services Board conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The Board is considered to be a local government unit. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The AuSable Valley Community Mental Health Services Board functions as a joint venture between Iosco, Ogemaw and Oscoda counties, and is designated as a Community Mental Health Authority under Section 205 of the Michigan Mental Health Code of 1996. The Board operates under an appointed Board (12 members) whose purpose is to provide quality mental health services to residents of the above constituent counties, which are aimed at preventing and treating emotional problems and substance abuse; and which promote greater independence and improved quality of life for people in these counties with developmental disabilities, mental illness, or substance abuse. The financial statements of the AuSable Valley Community Mental Health Services Board have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Board's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Board exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Basis of Presentation

The Board's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities. The Board does not currently have any business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental fund.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Presentation (Continued)

The statement of net assets presents the financial condition of the governmental activities of the Board at year end. The statement of activities presents a comparison between program expenses and program revenues for each function or program of the Board's governmental activities. Program expenses are those that are specifically associated with a service, program or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of program expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Board. Indirect expenses for overhead (i.e. utilities, telephone, rent, etc.) are allocated based on building square footage. The indirect expenses for board administration and program indirect costs are allocated to each program proportionately based on direct program expenses net of contract costs.

Fund Financial Statements:

Fund financial statements report detailed information about the Board. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. The Board's general fund and internal service funds are considered major funds.

C. Fund Accounting

The Board uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The general fund of the Board is in the governmental category and the internal service fund is in the proprietary category.

Governmental Funds:

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Board's major governmental fund:

General Fund – The General Fund is the general operating fund of the Board. It is used to account for all financial resources.

Proprietary Funds:

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Fund Accounting (Continued)

Proprietary Fund – Internal service funds are used to account for the financing of goods or services provided by other funds of the entity. The Board's internal service fund is used to account for the securing of funds necessary to meet expected future risk financing requirements.

D. Measurement Focus

Government-Wide Financial Statements :

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Board are included on the statement of net assets.

Fund Financial Statements :

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary fund is accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund is included on the statement of net assets. The statement of changes in revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Board finances and meets the cash flow needs of its proprietary activities.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The governmental fund also uses the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Basis of Accounting (Continued)

Nonexchange transactions, in which the Board receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis.

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

Expenses/Expenditures:

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Board are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

G. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the governmental-wide and fund financial statements.

H. Capital Assets

General capital assets are those assets that result from expenditures in the governmental fund. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$1,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Descriptions</u>	Governmental Activities
	<u>Estimated Lives</u>
Buildings and improvements	20 - 50 years
Furniture, fixtures and equipment	5 - 20 years
Vehicles	5 years

I. Compensated Absences

The Board reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Sick leave and vacation benefits are accrued as a liability using the vesting method. An accrual for earned sick leave and vacation are made based on accumulated sick leave and wage rates at year-end, taking into consideration limits specified in the Board's termination policy.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from the governmental fund are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended September 30, 2005.

M. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

N. Budgets and Budgetary Accounting

The Board normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Director of Finance submits to the Board a proposed budget prior to September 1 of each year. The budget includes proposed expenditures and the means of financing them.

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the State. The law requires appropriation acts to be adopted for General Funds.

2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally enacted through passage of Board motion.
4. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Board.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Governmental Fund Balance Reserves

The Board records reservations for portions of governmental fund balances which are legally segregated for a specific future use or which do not represent available spendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. Reservations of fund balance for the State general fund represent carry forward funding as provided by the Managed Specialty Supports and Services Contract. Reservations for Adult Benefit Waiver and MI Child will become local funds in the next fiscal year.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Board's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	<u>\$ 1,255,558</u>
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The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts)	\$ 428,873
Investment in money market funds	823,726
Petty cash	200
Cash advances	2,150
Cash held in trust	<u>609</u>
Total	<u>\$ 1,255,558</u>

As of September 30, 2005, the Board had the following investments.

Investment Type	Fair Value	Specific Identification Maturities
Money market funds	<u>\$ 823,726</u>	Daily

Credit Risk

As of September 30, 2005, the Board's investments consisted entirely of investment in the Fifth Third Institutional Government Money Market Fund. This fund was rated AAAM by Standard & Poor's and AAA by Fitch Ratings.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Board's deposits may not be returned to it. As of September 30, 2005, \$633,291 of the Board's bank balance of \$872,036 was exposed to custodial credit risk because it was uninsured and uncollateralized.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Board will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Board's investment policy which is in accordance with State law.

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Board's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The AuSable Valley Community Mental Health Services Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Board to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Board's deposits and investments are in accordance with statutory authority.

NOTE 3 - ACCOUNTS RECEIVABLE – CMH SERVICES

Accounts receivable – CMH Services includes gross receivables from clients, Medicare, Blue Cross and Blue Shield, HMO's and other commercial insurances of \$300,678 less a contractual allowance of \$49,702.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 4 - DUE FROM STATE

Due from State includes grant receivables as follows:

Department of Community Health:	
OBRA PASARR	\$ 4,152
Family Independence Agency:	
Teen Parenting Program	21,938
Wraparound	4,302
Strong Families Safe Children	4,054
	<u>30,294</u>
	\$ <u>34,446</u>

NOTE 5 - LAND CONTRACTS RECEIVABLE

Land contracts that were transferred from the AuSable Valley Community Mental Health Foundation follow:

<u>Contract Date</u>	<u>Location</u>	<u>Original Contract</u>	<u>Monthly Payment</u>	<u>Interest Rate</u>	<u>Balance September 30, 2005</u>
October 1, 1993	West Branch, MI	\$ 55,000	\$ 263	6%	\$ 20,116
January 3, 1994	West Branch, MI	57,500	412	6%	21,723
July 7, 1994	Lupton, MI	68,000	292	6%	16,451
February 19, 1999	East Tawas, MI	71,500	512	6%	56,272
September 29, 2000	Rose City, MI	75,000	432	6%	70,881
January 3, 2001	West Branch, MI	62,000	372	6%	57,959
August 6, 2002	East Tawas, MI	75,000	450	6%	71,919
June 11, 2003	Oscoda, MI	78,900	473	6%	<u>76,600</u>
					\$ <u>391,921</u>

NOTE 6 - DUE TO STATE

Due to State includes the following:

Contract reconciliation and cash settlement with the Department of Community Health	\$ 27,325
Billings for patients of the Board, housed in State operated or State sponsored facilities	<u>17,057</u>
	\$ <u>44,382</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2005, was as follows:

	<u>Balance</u> <u>October 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>September 30, 2005</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 115,412	\$ 0	\$ 0	\$ 115,412
Capital Assets Being Depreciated:				
Buildings and improvements	1,307,806	248,086	0	1,555,892
Furniture, fixtures and equipment	772,147	74,003	176,975	669,175
Vehicles	774,123	0	13,004	761,119
Subtotal	<u>2,854,076</u>	<u>322,089</u>	<u>189,979</u>	<u>2,986,186</u>
Less Accumulated Depreciation for:				
Buildings and improvements	270,648	7,843	0	278,491
Furniture, fixtures and equipment	608,919	60,022	176,341	492,600
Vehicles	634,260	72,139	13,004	693,395
Subtotal	<u>1,513,827</u>	<u>140,004</u>	<u>189,345</u>	<u>1,464,486</u>
Capital Assets Being Depreciated	<u>1,340,249</u>	<u>182,085</u>	<u>634</u>	<u>1,521,700</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 1,455,661</u>	<u>\$ 182,085</u>	<u>\$ 634</u>	<u>\$ 1,637,112</u>

Depreciation expense was charged to programs as follows:

<u>Governmental Activities</u>	
MI – Child Outpatient	\$ 2,619
MI – Child Case Management	7,023
MI – Adult Habilitation Services	7,889
MI – Adult Outpatient	10,812
MI – Adult Case Management	20,791
DD – Habilitation Services	25,799
DD – Community Living	22,302
DD – Outpatient	849
DD – Case Management	10,999
Prevention	13,234
Substance Abuse Program	4,186
Supported Employment	<u>13,501</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 140,004</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 8 - LONG-TERM DEBT

Compensated Absences

Sick Pay

The Board has an employee benefit plan that allows employees to accumulate sick pay hours at the rate of four hours per pay period with 1,040 hours maximum accumulation. Upon retirement or death, the employee or beneficiary is entitled to one-half of unused sick pay at their current rate of pay. Upon termination of employment, for reasons other than retirement or death, employees meeting certain requirements are also eligible for one-half of their unused sick pay, to a maximum of 320 hours. The accumulated sick pay liability at September 30, 2005 was \$114,161.

Vacation Pay

The Board has an employee benefit plan that allows employees to accumulate vacation pay, at varying rates, up to a maximum of 240 hours. Upon termination of employment, employees with at least 15 months of service are entitled to all unused vacation pay at their current rate of pay. The accumulated vacation pay liability at September 30, 2005 was \$360,159.

The following is a summary of long-term debt transactions of the Board:

	<u>Balance</u> <u>October 1, 2004</u>	<u>Decreases</u>	<u>Balance</u> <u>September 30, 2005</u>	<u>Amount Due</u> <u>In One Year</u>
Compensated absences	<u>\$ 492,808</u>	<u>\$ 18,488*</u>	<u>\$ 474,320</u>	<u>\$ 0</u>

* Represents net of additions and reductions for the year.

NOTE 9 - LEASE COMMITMENTS

The AuSable Valley Community Mental Health Services Board leases the following facilities: Board Staff Psychiatrist residence from Carole Sullivan for \$450 per month; the West Branch Detox Center from Bob Griffin for \$850 per month; a consumer leased home from Joan Spurlin for \$670 per month; a consumer leased home from G. Reynolds for \$450 per month; and a consumer leased home from Nancy Griffin for \$700 per month. Total rent expense for the year was \$41,171. All leases have expiration dates of one year or less except for the Nancy Griffin lease which runs through May 2007. Minimum future rental payments under noncancelable leases for the years after September 30, 2005 are as follows:

2006	\$ 8,400
2007	<u>5,600</u>
	<u>\$ 14,000</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 10 - PENSION PLAN

The AuSable Valley Community Mental Health Services Board has a defined contribution pension plan. All employees who have completed one (1) year of service and have attained the age of 19 are eligible. Vesting in the plan is 0% for years 1-3 and 100% after year 4. The plan is administered by the Sprague Agency.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account.

The Board is required to contribute 7% of the participant's base wages for the fiscal year. The contributions are funded on an annual basis.

During the year, the Board's required and actual contributions amounted to \$376,431 which was 7% of its current year covered payroll of \$5,631,716 less current year forfeitures of \$17,789.

No pension provision changes occurred during the year that affected the required contributions to be made by the Board.

NOTE 11 - DEFERRED COMPENSATION PLAN

The Board offers to its employees deferred compensation plans created in accordance with Internal Revenue Code (IRC) Section 457. The assets of the plans are held in trust, in a custodial account as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Board for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Board's financial statements.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 12 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Board participates in the Michigan Municipal Risk Management Authority for self-insuring liability, vehicle physical damage and property and crime coverage. The pool is considered a public entity risk pool. The Board pays annual premiums to the pool for the respective insurance coverage. Under most circumstances, the Board's maximum coverage per occurrence is limited as follows:

<u>Type of Risk</u>	<u>Coverage</u>	<u>Deductible</u>
Liability	Variable \$2,000 - \$15,000,000 each occurrence	\$ 0
Vehicle physical damage	\$1,500,000 each occurrence	\$ 250/vehicle
Property and crime	Variable \$10,000 - \$25,000,000 each occurrence	\$ 250/occurrence

The Board continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - UNEMPLOYMENT COMPENSATION

The Board is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Board must reimburse the Employment Agency for all benefits charged against the Board. All liabilities incurred have been accrued in the financial statements as of September 30, 2005.

NOTE 14 - CONTINGENCIES

The Board participates in a number of federally assisted grant programs which are subject to program compliance audits. The audits of these programs for and including the year ended September 30, 2005, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the Board expects such amounts, if any, to be immaterial.

The Board's recorded liability to the Michigan Department of Community Health for State operated facilities is less than that reported by the State. The dispute centers around NGRI inpatient admissions. The Board has been successful in similar disputes, and expects the same outcome in this case.

On October 5, 2005, the Fiscal Audit Division of the Michigan Department of Community Health (MDCH) issued the final report of their audit of the AuSable Valley Community Mental Health Services Board for the period October 1, 1998 through September 30, 2001, and selected areas from surrounding years. The report includes significant audit adjustments and payback requirements as a result of various findings. The Board is appealing the findings of the report using the dispute resolution process under the terms of the Managed Specialty Supports and Services Contract as well as under the terms of the Medicaid Provider Reviews and Hearings. A preliminary conference has been scheduled for January 31, 2006.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2005

NOTE 14 - CONTINGENCIES (CONTINUED)

In January, 2006, the Fiscal Audit Division of the MDCH began an audit for the period October 1, 2001 through September 30, 2003. This audit was still in process as of the date of this audit report.

The Board is the defendant in various lawsuits. The Board continues to vigorously defend its position in each case. Each matter has been referred to the Board's liability insurance company and expects any damages to be covered by applicable insurance.

REQUIRED SUPPLEMENTARY INFORMATION

AUSABLE VALLEY COMMUNITY
 MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenue	\$ 12,650,855	\$ 12,746,375	\$ 12,746,375	\$ 0
Expenditures	<u>12,650,855</u>	<u>12,645,441</u>	<u>12,645,441</u>	<u>0</u>
Excess of revenue over expenditures	0	100,934	100,934	0
Fund balance - beginning of year	<u>898,716</u>	<u>898,716</u>	<u>898,716</u>	<u>0</u>
Fund balance - end of year	<u>\$ 898,716</u>	<u>\$ 999,650</u>	<u>\$ 999,650</u>	<u>\$ 0</u>

OTHER INFORMATION

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF REVENUE COMPARED TO BUDGET
For the Year Ended September 30, 2005

With Comparative Actual Amounts for the Year Ended September 30, 2004

	<u>2005 Budget</u>	<u>2005 Actual</u>	<u>2004 Actual</u>
<u>Federal Grants</u>			
Department of Community Health:			
Mental Health Block Grant	\$ 54,135	\$ 54,135	\$ 55,972
OBRA/PASARR	14,236	14,236	15,914
Family Independence Agency:			
Teen Parenting Program	50,506	50,506	48,414
Wraparound Program	45,000	45,000	66,000
Strong Families Safe Children Contract	40,700	40,700	32,331
IMH - Secondary Prevention Grant	72,036	72,036	77,081
Iosco Regional Educational Service Agency:			
Infant and Toddlers	78,897	78,897	57,454
St. Joseph Health Systems:			
Community Based Abstinence Grant	60,414	60,414	109,592
U.S. Department of Justice:			
Drug-Free Communities Support Program	72,010	72,010	73,597
Northern Michigan Substance Abuse Services, Inc.:			
Substance abuse grants	379,942	379,942	468,946
Bay Arenac Behavioral Health:			
Substance abuse grants	60,068	60,068	44,149
Northeast Michigan Community Service Agency:			
School Success Program	<u>86,228</u>	<u>86,228</u>	<u>30,000</u>
Total Federal Grants	1,014,172	1,014,172	1,079,450
<u>State and Local Grants and Contracts</u>			
North Country CMH - Medicaid	7,766,347	7,766,347	7,951,249
Department of Community Health - General Fund	2,151,084	2,151,084	2,126,884
Department of Community Health - Adult Benefit Waiver	323,050	323,050	377,412
Department of Community Health - MI Child	10,302	10,302	0
Other State and Local Grants	149,783	149,783	184,497
<u>Grants from Local Units</u>			
Iosco County	69,070	69,070	69,070
Ogemaw County	54,683	54,683	54,683
Oscoda County	23,800	23,800	23,800
Title XX Replacement	8,200	8,200	8,200
<u>Earned Contracts</u>			
Department of Community Health	66,500	66,500	32,252
Other Contracts	382,320	382,320	327,825
<u>Charges and Fees for Services</u>			
Client and other	448,319	448,319	463,277
SSI AFC Home	206,407	206,407	233,223
<u>Non-Match Revenue</u>			
Foundation Contributions	0	0	1,754,677
Other non-match revenue	36,560	36,560	6,124
Interest Earned	<u>35,778</u>	<u>35,778</u>	<u>33,920</u>
Total Mental Health Programs	<u>\$ 12,746,375</u>	<u>\$ 12,746,375</u>	<u>\$ 14,726,543</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

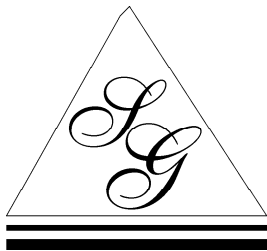
GENERAL FUND
DETAILS OF EXPENDITURES COMPARED TO BUDGET
For the Year Ended September 30, 2005
With Comparative Actual Amounts for the Year Ended September 30, 2004

	2005 Budget	2005 Actual	2004 Actual
MI - Child Habilitation Services	\$ 76,486	\$ 76,486	\$ 205,994
MI - Child Outpatient	217,130	217,130	269,415
MI - Child State Inpatient	89,184	89,184	9,724
MI - Child Case Management	583,965	583,965	751,808
MI - Adult State Inpatient	34,692	34,692	11,583
MI - Adult Community Inpatient	79,127	79,127	72,546
MI - Adult Habilitation Services	696,432	696,432	822,736
MI - Adult Outpatient	713,093	713,093	807,487
MI - Adult Case Management	974,258	974,258	863,479
DD - State Inpatient	114,382	114,382	78,421
DD - Children's Waiver	52,668	52,668	145,578
DD - Habilitation Services	3,989,695	3,989,695	4,421,015
DD - Community Living	861,091	861,091	939,279
DD - Outpatient	289,992	289,992	344,375
DD - Case Management	627,976	627,976	938,511
DD - Respite Care	14,641	14,641	25,744
Other Outpatient Services	280,554	280,554	278,496
Emergency Services	129,928	129,928	94,187
Supported Employment	700,196	700,196	618,781
Prevention	1,293,757	1,293,757	1,484,467
Substance Abuse Program	826,194	826,194	837,205
	<u>\$ 12,645,441</u>	<u>\$ 12,645,441</u>	<u>\$ 14,020,831</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

GENERAL FUND
DETAILS OF EXPENDITURES
For the Year Ended September 30, 2005
With Comparative Totals for the Year Ended September 30, 2004

	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 6,926,521	\$ 6,998,337
Fringe benefits	2,773,828	2,876,703
Board expense	58,638	57,943
Office supplies	56,698	51,927
Postage	17,476	17,573
Furniture and equipment	5,558	92,951
Capital outlay	322,089	1,229,805
Program supplies	207,215	249,128
Contracted services - miscellaneous	135,123	223,149
Contracted services - audit	16,320	15,545
Contracted services - doctor	79,581	86,191
Contracted services - Northern Family Intervention Services	112,500	120,000
Contracted services - A.F.C. - homes	0	205,939
Contracted services - C.F.C. - home	3,276	157,399
Contracted services - community inpatient	79,128	72,741
Contracted services - attorney	73,729	100,437
Contracted services - consultation	103,659	94,193
Contracted services - habilitation services	338,776	122,957
Contracted services - Northern Affiliation	52,259	61,214
Contracted services - children's respite	9,842	12,450
Contracted services - software support	22,415	19,401
Contracted services - Voyager internet	534	6,470
Institutional billings - local	55,381	15,638
Institutional billings - state	182,877	84,089
Memberships and dues	8,719	8,595
Telephone	106,165	112,289
Transportation - client	111,326	118,149
Transportation - staff	216,259	223,141
Staff development	48,226	46,216
Advertising	10,775	8,966
Insurance and bonds	117,916	121,851
Medicaid draw-down	146,149	145,547
Utilities	84,116	79,556
Repairs and maintenance - building	93,976	128,747
Repairs and maintenance - equipment	27,220	24,065
Rent - building	41,171	31,529
Total Expenditures	<u>\$ 12,645,441</u>	<u>\$ 14,020,831</u>



Stephenson Gracik & Co., P.C.

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Herman A Bertuleit, CPA

January 25, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the Board's basic financial statements and have issued our report thereon dated January 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

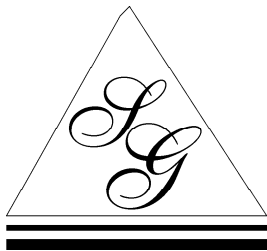
In planning and performing our audit, we considered the AuSable Valley Community Mental Health Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AuSable Valley Community Mental Health Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Members of the Board, the Michigan Department of Treasury, the Michigan Department of Community Health, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Gracik & Co., P.C.



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January 25, 2006

Members of the Board
AuSable Valley Community Mental
Health Services Board
Tawas City, Michigan

Dear Board Members:

We have audited the financial statements of the AuSable Valley Community Mental Health Services Board for the year ended September 30, 2005, and have issued our report thereon dated January 25, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated September 13, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Board's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on the Board's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Board's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Board are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Members of the Board
AuSable Valley Community
Mental Health Services Board
January 25, 2006
Page Two

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Board's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Board, either individually or in the aggregate, indicate matters that could have a significant effect on the Board's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

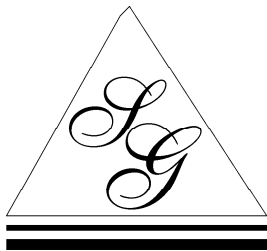
Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Board.

This information is intended solely for the use of management, the Members of the Board, the Michigan Department of Treasury, the Michigan Department of Community Health, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grainth & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
TAWAS CITY, MICHIGAN

SINGLE AUDIT REPORTS
YEAR ENDED SEPTEMBER 30, 2005

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PAGE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT*
AUDITING STANDARDS

1

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

2 - 3

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

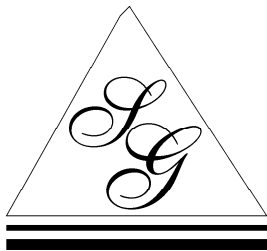
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

5

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

6 - 9



Stephenson Gracik & Co., P.C.

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January 25, 2006

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

We have audited the financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board, Tawas City, Michigan, as of and for the year ended September 30, 2005, which collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements and have issued our report thereon dated January 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

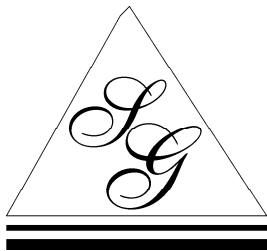
In planning and performing our audit, we considered the AuSable Valley Community Mental Health Services Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the AuSable Valley Community Mental Health Services Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Members of the Board, management, the Michigan Department of Treasury, the Michigan Department of Community Health, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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January 25, 2006

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board
AuSable Valley Community
Mental Health Services Board
Tawas City, Michigan

Compliance

We have audited the compliance of the AuSable Valley Community Mental Health Services Board with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The AuSable Valley Community Mental Health Services Board's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the AuSable Valley Community Mental Health Services Board's management. Our responsibility is to express an opinion on the AuSable Valley Community Mental Health Services Board's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the AuSable Valley Community Mental Health Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the AuSable Valley Community Mental Health Services Board's compliance with those requirements.

In our opinion, the AuSable Valley Community Mental Health Services Board complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the AuSable Valley Community Mental Health Services Board is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the AuSable Valley Community Mental Health Services Board's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Members of the Board
AuSable Valley Community
Mental Health Services Board
January 25, 2006
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and each major fund of the AuSable Valley Community Mental Health Services Board as of and for the year ended September 30, 2005, and have issued our report thereon dated January 25, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the AuSable Valley Community Mental Health Services Board's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Members of the Board, management, the Michigan Department of Treasury, the Michigan Department of Community Health, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2005

Findings – Financial Statement Audit

There were no findings related to the financial statement audit for the year ending September 30, 2004.

Findings and Questioned Costs – Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending September 30, 2004.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2005

Summary of Auditors' Results

- (1) The auditors' report expresses an unqualified opinion on the financial statements of the AuSable Valley Community Mental Health Services Board.
- (2) No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
- (3) No instances of noncompliance material to the financial statements of the AuSable Valley Community Mental Health Services Board, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
- (4) No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
- (5) The auditors' report on compliance for the major federal award programs for the AuSable Valley Community Mental Health Services Board expresses an unqualified opinion.
- (6) The auditors' report disclosed no instances of findings relative to the major federal award programs of the AuSable Valley Community Mental Health Services Board.
- (7) The program tested as a major program was:

Substance Abuse Block Grants CFDA # 93.959
- (8) The threshold for distinguishing Type A and B programs was \$300,000.
- (9) AuSable Valley Community Mental Health Services Board was determined to be a low-risk auditee.

Findings – Financial Statements Audit

There were no findings related to the financial statement audit for the year ending September 30, 2005.

Findings and Questioned Costs – Federal Award Programs Audit

There were no findings or questioned costs related to the major federal award programs audit for the year ending September 30, 2005.

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue October 1, 2004</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue September 30, 2005</u>	<u>Adjustments</u>
U.S. Department of Justice Drug-Free Communities Support Program 2002-JN-FX-0061	16.729	\$ 184,115	\$ 90,242	\$ 14,782	\$ 72,010	\$ 62,164	\$ 24,628	\$ 0
U.S. Department of Education Passed through Iosco Regional Educational Service Agency as Fiscal Agent: Infant and Toddlers: 041340190 051340190	84.181	64,866 65,259	17,636 0	1,529 0	43,319 19,471	64,866 0	(3,911) 19,471	16,107 (a) 0
Total U.S. Department of Education		130,125	17,636	1,529	62,790	64,866	15,560	16,107
U.S. Department of Health and Human Services Passed through St. Joseph Health Systems: SPRANS - Community Based Abstinence Grant 6/30/05	93.110	92,500	26,249	19,639	60,414	80,053	0	0
Promoting Safe and Stable Families: SFSC 04-65001 SFSC 04-65001-2 WRAP 03-68001-2 WRAP 03-65001-3	93.556	37,700 37,700 25,000 20,000 120,400	35,331 0 0 0 35,331	1,592 0 0 0 1,592	0 37,700 25,000 20,000 82,700	4,592 33,646 25,000 20,000 83,238	0 4,054 0 0 4,054	3,000 (b) 0 0 0 3,000
Passed through the Michigan Department of Human Services: Temporary Assistance for Needy Families: CTFPR 03-35001 CTFPR 05-35001 TP 01-65001-4 TP 01-65001-5	93.558	93,539 77,081 63,127 63,127 296,874	0 0 46,614 0 46,614	(176) 0 7,144 0 6,968	0 72,036 0 50,506 122,542	0 77,441 7,144 28,568 113,153	(176) (5,405) 0 21,938 16,357	0 0 0 0 0
Passed through Bay Arenac Behavioral Health: Substance Abuse Adult Benefits Waiver Detox 2004/2005	93.767	11,184	0	0	7,795	6,880	915	0

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue October 1, 2004</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue September 30, 2005</u>	<u>Adjustments</u>
U.S. Department of Health and Human Services (Continued)								
Medicaid Cluster:								
Passed through the Michigan Department of Community Health:								
OBRA/PASARR	93.778	\$ 30,150	\$ 15,914	\$ 15,914	\$ 14,236	\$ 27,036	\$ 3,114	\$ 0
Passed through Bay Arenac Behavioral Health:								
Substance Abuse Medicaid								
Detox 2003/2004	93.778	6,380	3,566	1,475	0	1,475	0	0
Detox 2004/2005		26,726	0	0	15,156	14,411	745	0
		<u>33,106</u>	<u>3,566</u>	<u>1,475</u>	<u>15,156</u>	<u>15,886</u>	<u>745</u>	<u>0</u>
Passed through Northern Michigan Substance Abuse Services:								
Substance Abuse Medicaid								
Outpatient	93.778	49,379	0	0	28,003	27,473	530	0
Detox		101,899	0	0	57,787	54,787	3,000	0
		<u>151,278</u>	<u>0</u>	<u>0</u>	<u>85,790</u>	<u>82,260</u>	<u>3,530</u>	<u>0</u>
Total Medicaid Cluster		<u>214,534</u>	<u>19,480</u>	<u>17,389</u>	<u>115,182</u>	<u>125,182</u>	<u>7,389</u>	<u>0</u>
Passed through the Michigan Department of Community Health:								
Block Grants for Community Mental Health Services								
03 B1 MI CMHS-02	93.958	55,972	55,972	10,005	0	10,005	0	0
04 B1 MI CMHS-03		54,136	0	0	54,135	49,974	4,161	0
		<u>110,108</u>	<u>55,972</u>	<u>10,005</u>	<u>54,135</u>	<u>59,979</u>	<u>4,161</u>	<u>0</u>
Passed through Northern Michigan Substance Abuse Services:								
Substance Abuse Block Grant:								
Detox 2003/2004	93.959	354,954	266,216	18,443	0	18,443	0	0
Outpatient 2003/2004		146,593	109,945	6,570	0	6,570	0	0
Prevention 2003/2004		123,713	92,785	4,320	0	4,320	0	0
Detox 2004/2005		321,632	0	0	224,178	201,960	22,218	0
Outpatient 2004/2005		100,393	0	0	69,974	65,500	4,474	0
Prevention 2004/2005		123,713	0	0	86,228	86,228	0	0
		<u>1,170,998</u>	<u>468,946</u>	<u>29,333</u>	<u>380,380</u>	<u>383,021</u>	<u>26,692</u>	<u>0</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

<u>Federal Grantor or Pass Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Approved Grant Award Amount</u>	<u>(Memo Only) Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue October 1, 2004</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts (Cash Basis)</u>	<u>Accrued (Deferred) Revenue September 30, 2005</u>	<u>Adjustments</u>
U.S. Department of Health and Human Services (Continued)								
Passed through Bay Arenac Behavioral Health:								
Substance Abuse Block Grant:								
Detox 2003/2004	93.959	\$ 32,629	\$ 24,472	\$ 495	\$ 0	\$ 495	\$ 0	\$ 0
Detox 2004/2005		49,489	0	0	37,117	29,959	7,158	0
		<u>82,118</u>	<u>24,472</u>	<u>495</u>	<u>37,117</u>	<u>30,454</u>	<u>7,158</u>	<u>0</u>
 Total Substance Abuse Block Grant		<u>1,253,116</u>	<u>493,418</u>	<u>29,828</u>	<u>417,497</u>	<u>413,475</u>	<u>33,850</u>	<u>0</u>
 Total U.S. Department of Health and Human Services		<u>2,098,716</u>	<u>677,064</u>	<u>85,421</u>	<u>860,265</u>	<u>881,960</u>	<u>66,726</u>	<u>3,000</u>
 Total Federal Awards		<u>\$ 2,412,956</u>	<u>\$ 784,942</u>	<u>\$ 101,732</u>	<u>\$ 995,065</u>	<u>\$ 1,008,990</u>	<u>\$ 106,914</u>	<u>\$ 19,107</u>

AUSABLE VALLEY COMMUNITY
MENTAL HEALTH SERVICES BOARD
Tawas City, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

Notes:

1. The Schedule of Expenditures of Federal Awards is a summary of the cash activity of the Organization's federal awards and does not present transactions that would be included in financial statements of the Organization presented on the accrual basis of accounting, as contemplated by accounting principles generally accepted in the United States of America.
2. The following adjustments were made to the Schedule of Expenditures of Federal Awards:
 - (a) Grant Award 031340190 was increased by costs for the year ending September 30, 2004 that were not included in expenditures or receivables for the year ending September 30, 2004.
 - (b) Grant Award SFSC 04-65001 was increased by an additional grant expenses at September 30, 2004 reported on the revised September 2004 reimbursement request filed after the audit had been completed.
3. Reconciliation to the Fund financial statements:

Federal revenues per fund financial statements	\$ 1,014,172
Grants receivable not included in the financial statements because the receivables did not meet the requirements of GASB 33 for accrual:	
Grant award 031340190 receivable at September 30, 2004	(16,107)
Grant award SFSC 04-65001 receivable at September 30, 2004	<u>(3,000)</u>
Expenditures per the Schedule of Expenditures of Federal Awards	<u>\$ 995,065</u>